

DEBT MATTERS



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PRINTING**
IS PUTTING THE U.S.
ON ITS DEBT BED

UPDATED AUGUST 2020

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Money Printing is Putting the US on its Debt Bed

By David M. Engstrom

August 2020

At the onset of the war we now fight against the “virus,” we were all led to believe it was so deadly and dangerous we needed to shut down the entire global economy.

In so doing, governments would print trillions of dollars to subsidize those not working in order for commerce to continue as uninterrupted as possible.

While many cheered the prospect of receiving free money, few stopped to really think about how much free money would be handed out. In a recent interview, Robert Kiyosaki, famous best-selling author of *Rich Dad Poor Dad*, spoke to the issue of printing money. He said, “There was a shortage of toilet paper, but there will never be a shortage of cash. They’ll just keep printing it.”

That statement should send chills down your spine. I mean who doesn’t like free money? But, I can assure you, there is nothing free about the money that has been printed and handed out to appease the financially wounded. Do you see what’s coming?

How Much Money Has Been Printed?

In a recent ABC News release, we learn that the U.S. Budget Deficit hit a new all-time high of \$864 billion dollars for the month of June. The previous monthly all-time high was \$738 billion set in April. Let’s just take a second to put that into perspective. When Ronald Reagan took office in 1981, the entire national debt was only \$678 billion. What a difference 40 years can make.



According to Professor Google, otherwise just known as just Google, it is estimated that the GDP will contract by 7 percent in 2020. Considering GDP in February was running at about a \$22 trillion dollar clip, that would put 2020 GDP near \$20.46 trillion for a \$1.54 trillion dollar loss. And that’s for the entire year.

By June 1, 2020, we saw GDP drop by an estimated \$2.75 trillion from the February \$21.98 trillion dollar level. But according to an April 15, 2020 *Washington Post* report, “The U.S. has thrown more than \$6 trillion at the coronavirus crisis. That number could grow.” Since then, some have estimated the Fed will print \$10 trillion by the time this is under control. I mean, the Fed did say they would print money to infinity.

It’s curious to me how just 45 days or so into the crisis, the Fed was compelled to print \$6 trillion dollars of stimulus to fight the pandemic. And, if we are now in

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some type of recovery, why is it estimated by some that we will need to print another \$4 trillion of stimulus before the end of the year?

We could debate the need for so much money, but the simple explanation, in my humble opinion, was that the economy was on the brink of collapse before the pandemic struck. Thus, the pandemic served as the perfect excuse to bail out the not-so-strong economy. Why else would we have to print \$6 trillion or even \$10 trillion dollars to fix a \$2.75 trillion dollar problem in the short term, or the annual estimated loss of just \$1.54 trillion? It does not add up.

Money Printing is Putting the U.S. on Its Debt Bed

According to the U.S. Debt clock, virus money printing has pushed our national debt to \$27 trillion dollars. But, because our GDP has taken a massive hit due to the shutdown, our debt-to-GDP ratio, which was running at about a 106% clip before the pandemic, has now exploded to **more than 136%** at the time of this writing. That's the good news.

The bad news is that U.S. Total Debt, including household, business, state and local government debt, financial institutions all combined with national debt, has now rocketed past \$80 trillion dollars and is growing at a rate of about \$17 billion per minute. This according to the US Debt Clock.

Now the ugly news. U.S. Unfunded liabilities now exceed \$153 trillion dollars, which means the real total debt of the U.S. and its citizens is over \$234 trillion dollars. This money printing is speeding up the inevitable — BANKRUPTCY! Don't think that could happen? Well did you know the U.S. has declared bankruptcy five times? One filing was because we could not pay foreign debts and four other times we could not pay internal debts. And what can happen when a country goes bankrupt?

We could see power companies stop operations, gas stations close, empty grocery shelves, shuttered banks and potential salary freezes for civil servants. Civil servants like police, fire, waste management, snow plows, park services and the list goes on.

Some say this can't happen in America and it may be true — at least for the time being. The U.S. still has the luxury of controlling the world's reserve currency. Theoretically, we can just print whatever we need. That's what we are doing now, but it's a very dangerous game. What if the dollar loses reserve status? If that happens, consider all of the calamities cited earlier in this paragraph and then add war to the list.

There may be other options for the U.S. besides bankruptcy. As long as we can keep printing money we will likely do just that. I hearken back to what Chairman Powell said — the Fed will print money to infinity. Should that be the case, the value, or purchasing power, of our dollar will collapse. I am guessing this will be the path that is taken.

The Money Printing Double Whammy

As the pandemic continues to barrel along, more and more businesses are making the decision to close forever. According to reports, as much as "40% of U.S. Economy Could Be Wiped Out Over Covid-19." Corroborating this claim, in a survey of nearly 24,000 restaurants, Yelp finds that 53% have permanently closed.

From a CNN report we learn that airlines are warning "massive job cuts are inevitable after bailout money dries up." "Roughly 750,000 pilots, flight attendants, baggage handlers, mechanics and others — will soon be among the most at-risk for losing their jobs."

So as money printing pushes us closer and closer to a debt Apocalypse, (outcome yet to be determined) fewer

and fewer people will have jobs. As the workforce shrinks, wages shrink, consumer consumption shrinks, personal bankruptcies rise, foreclosures increase, rent defaults lead to evictions, landlords go bust and banks take a big kick in the pants.

As all of this occurs, federal tax revenue dries up. Currently, according to the U.S. Debt Clock, nearly every dime of federal tax revenue now goes to paying just Social Security, Medicare and Medicaid. These are non-discretionary budget items, but not all of them I might add. Federal Pensions, and interest on our national

debt account for about another \$600 billion of non-discretionary budget spending.

We are well past the “Crash Point” I have been warning you about. That’s the point where we have to borrow money just to pay the interest on our national debt. That’s what entitlements are — interest on the money withheld from us over the decades. In just 4 months we have blown past that limit. Who wants to lend money (buy bonds from) someone who has to print money just to pay back the interest? That’s the double whammy, as the work force shrinks debt rises exponentially.

5 Hazards of Pandemic Money Printing

At the outset of the pandemic, a decision was made.

Let’s shut down the global economy and print money for bailouts to keep GDP and Businesses intact. Money printing enabled the shutdown. Now, the effect pandemic money printing is having on debt is obvious. Debt is skyrocketing. Not so obvious is the economic fallout we could experience if the pandemic persists. It may already be too late but knowing what could be coming is vital to knowing how to endure it emotionally and survive it financially. Let’s first understand what’s coming.

Hazard 1: Joblessness

The economy has begun to re-open but not without some hitches. Some have already been discussed. Many businesses say they are closed forever. Others are trying to survive but the prospects for survival, for some, is questionable. As I write there remains, by some estimates, as many as 40 million people still unemployed. It’s been decided that more money printing/stimulus is necessary.

At this point, the purpose of printing more money may only be to postpone the inevitable, but isn’t that what government is good at? Kicking the can down the road?



If tens of millions of workers lose their jobs forever, and then stimulus expires, that’s a powerful number of people who will be exiting the consumer force.

In a healthy economy, small businesses employ some 59 million people. If more than half of those business close forever, that alone counts for some 30 million consumers who will no longer have any disposable income. As they consume less it becomes ever more difficult for our great American companies to grow their own business. Think of all the things that are bought because we want them not because we need them. Do we really need a third television, a new cell phone, the latest iPad, new car, new furniture, dinner out and on

and on. As money printing/stimulus dries up, and leaves tens of millions of people without means to buy things, it will be difficult for any company, small or large, to grow their earnings.

We are already seeing the likes of Facebook and Google entertain the prospect of lower wages and job cuts in anticipation of less business activity. The airlines are another major employer who has alerted employees of potential job cuts ahead. As fewer people travel, fewer workers are needed.

It's all but inevitable. Job loss could turn into a pandemic onto itself. So far money printing has saved many jobs, but once the free money runs out for both employers and employees, thousands of businesses will simply close and the workers will be hung out to dry. Money printing will have gone for naught.

Hazard 2: Inflation/Stagflation

Inflation? Really? Didn't I just tell you there was a good chance we are going to lose 20% of our work force forever? How do you get inflation when the pool of consumers is drying up? Here comes another "double whammy." Of course fewer workers means there will be less money earned not more. But, just as there are less workers, there is less productivity.

Think about it. The Fed says they will print money into infinity to facilitate bailouts, loans and various other types of stimulus. All this to replace earned income. If money is printed to preserve consumer buying power but less goods are produced because there are less people working, you have more money chasing fewer goods. That's inflationary.

Look at the meat industry. Workers are afraid to work, less food is produced but the price of meat... have you seen it lately? In some instances meat shelves at the grocery store are bare. You can't buy at any price. And, in other cases when you can find supply, it is many times the price it was prior to the pandemic.

Technically, what I am describing is stagflation. Prices go up but economic output falls. It seems this is what we

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are creating as we lose jobs, become less productive but print more money.

Hazard 3: Pensions Wipeout

At the federal level, one need only look at the U.S. Debt Clock to see that nearly 100% of federal tax revenue now goes to paying just Social Security, Medicare and Medicaid. There isn't even enough revenue left over to pay the interest on our debt, federal pensions or federal welfare like food stamps. It just isn't there. It is all but certain that there will be entitlement reform after the next election. Until now the topic has been toxic. Why? Because there is no amicable solution. Benefits have to be cut.

As of a year ago or so, State Pension Funds were underfunded by \$6 trillion dollars. That was in the middle of the best economy in history. Now we have the worst. Less people are working and the stock market looks to remain highly volatile for months to come. While some predict a collapse of the stock market and the dollar, if such would occur, pension funds could get wiped out. Robert Kiyosaki of Rich Dad Poor Dad fame sees a major collapse in pension funds ahead.

Pensions are being attacked on two fronts. Fewer wage earners is going to reduce tax revenue and more money printing is going to decrease the purchasing power of the savings and retirement of all of us. It's just common sense. The more money you print the less the dollars in our retirement accounts are worth. We are seeing it already.

Hazard 4: Commercial Real Estate Takes a Hit

Indeed the virus has many analysts predicting a severe fall in commercial real estate prices. Generally, they attribute the coming crisis to the virus. It is believed the work place is no longer a safe environment. Hence, the pandemic moved millions of workers into their home office to carry out their duties.

Of course that's part of it, but the other part is just plain business. If we suffer permanent job losses, GDP could take a permanent hit as the disposable income of millions of workers falls, forcing companies to adjust to a lower volume of business. In this regard, sending people home to work could be a Godsend. Who needed all those cubicles anyway?

So far, money printing has staved off even a greater number of layoffs but once it is gone, cost cutting becomes the order of the day. I know companies today that are reducing their office space for exactly that reason.

Money printing alone, however, cannot take the entire blame for a coming collapse in commercial real estate. But make no mistake, money printing is putting everyone into more debt that some administration is going to tell us we have to try and pay back. If commercial real estate goes bust, that too will seriously reduce the amount of property taxes paid to city, state and local governments.

And what does that mean? At some point we will be asked to pay back the bailout money being handed out by the trillions and to also make up for lost property tax revenue. In fact, it was money printing that was supposed to help building owners avoid losing their property. Owners and landlords could get cheap loans, tenants could do the same and small space renters could also get some bailout money to keep them in their offices.

More on this to come but for now suffice it to say, money printing adds debt and collapsing commercial real estate subtracts tax receipts. There's a double whammy for you.



Hazard 5: A Tax Hurricane Cometh

The laws of physics tell us for every action there is an equal but opposite reaction. So it will be with money printing. Money printing is just another name for debt creation and as discussed, money printing is creating a lot more. However, along with debt comes an obligation. That obligation is the equal but opposite reaction. It has to be paid back.

To pay back the debt means your debt payments have to increase. Did you really think we would be given FREE no-strings-attached money? I am not talking about the loans small business will be paying back. I am talking about the loans that will not be paid back. If a small business qualifies, a certain amount of the stimulus can be forgiven. But, what about all the stimulus debt that is not forgiven? Hang on because we are about to be blown away by higher taxes.

Federal Income Taxes

At least one party is already promising to raise income taxes to pay for all this - albeit on the rich only (chuckle, chuckle). There's just one problem. You can't raise taxes enough to even begin to lower our debt. Currently our national debt is rising by the trillions. In fact debt and deficits are rising so fast that a doubling of the income tax could not keep up. Can you afford to pay more than double the income tax you currently pay? I mean really. Can anyone?

Per the US Debt Clock, the deficit now exceeds the amount of taxes collected. As I write, the deficit reads more than \$2.8 trillion dollars. The read on tax revenue is \$2.7 trillion. With some 30 or 40 million people not working and stimulus still pouring out, this situation is getting worse not better. And then there was this from Reuters on July 31.

Ratings agency Fitch on Friday cut its outlook on the United States to “negative” from “stable”, citing deterioration in the country’s public finances and the absence of a credible fiscal consolidation plan. It affirmed its “AAA” rating on the country.

Yikes! No wonder gold and silver prices are on the rise. Truth be told, this situation has been in the making for months, even years. Since the last crisis, the Fed has been kicking the debt can down the road, postponing the inevitable. Now the inevitable has arrived.

State and Local Income Taxes

State income and other taxes will also have to increase. The States that paid out unemployment insurance payments will need to replace that. Lost income taxes

will also have to be recovered. Most states also rely on sales taxes to supplement income tax revenues. In this regard, states may have to raise sales taxes to make up for lost sales tax revenue.

Property taxes will also take a hit. Retail stores are closing, renters are not paying rent, home owners are not making house payments. Some estimates are for there to be 30 million new homeless after all is said and done. That is apocalyptic. Perhaps some of the vacated houses will be bought up by those who still have money but this unheard of number of people entering the ranks of the “homeless” is at the very minimum going to crush home values in many parts of the country.

Oh, and let’s not forget office buildings. In my opinion you might as well throw away 20 or 30% of them. If the pandemic has taught us anything, it is that millions of worker don’t really need an office. They can work from home. I think out a year from now and wonder how many office buildings will be vacant in some of our biggest cities. I can’t even imagine. The only certainty is that commercial property taxes are going to get smashed. Who is going to pay for that?

Now What?

Moving forward through the pandemic era, we can expect one of two things to happen. Either total annihilation of our way of life, or, if we take Chairman Powell at his word, we will get money printing forever.

In scenario one, the dollar crashes, the markets crash and the economy crashes. In scenario two, so much money is printed and given away, that, eventually inflation takes hold. In either case, tangible assets could soar. The more money we print the less our dollar is worth.



Obviously gold and silver are tangible assets that are starting to move higher. But, there are other tangible assets that can become more valuable if everything collapses or if we get massive inflation. Many people have already moved to the country. Some are buying farms, raising crops or raising various farm animals.

The migration out of the city and into the country has already begun.

Then there is this new phenomenon. Given that thousands, maybe millions of workers have been given the freedom to work from home, the migration to the coast has begun. Demand for coastal property has already begun to skyrocket. The previous need to live in a big city was dictated by the location of company headquarters. If you don't have to go to an office at company headquarters every day, you might as well live wherever you want.

Gold and silver are not the only precious metals that could become a great store of value. There's platinum, which is on the rise with gold and silver, palladium

is also a highly used industrial metal and copper is also on the rise. Bottom line is tangible usable assets should see higher demand, higher prices and in some cases shrinking supply. Now is the time to make your adjustments to your lifestyle and to your portfolio. Things are going to get dicey.

Closing Comments

At the outset of the pandemic, there were two choices to make. Keep the economy open or print money so that we can pretend the economy is fully open. It is hard to dispute that closing down the economy may have saved lives. Only time will tell us whether or not it was worth the cost of losing businesses, jobs and our freedoms. Stay tuned.

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